

**AMERICAN
ECONOMIC
LIBERTIES
PROJECT**

Industrial Policies and Competition



AMERICAN ECONOMIC LIBERTIES PROJECT

economicliberties.us

INDUSTRIAL POLICY SERIES

The Biden administration has revived industrial policy in America. The 2022 CHIPS Act invests in domestic semiconductor production, the 2022 Inflation Reduction Act aims to support domestic production of electric vehicles, solar panels, and other goods to reduce carbon emissions, and the 2021 Infrastructure Investment and Jobs Act invests in making resilient domestic transportation and infrastructure. With the goal of creating, restructuring, or expanding domestic industries, these three laws will inject over \$1.7 trillion into the U.S. economy and have been estimated to add roughly 3 million jobs per year over the next decade.

The administration's turn to industrial policy represents a dramatic break from decades of neoliberal policymaking, and an important intellectual and political victory for progressives who believe that government has a key role to play in fostering a more just and resilient economy. Furthermore, these policies lay the groundwork for America to rebuild its fragile supply chains, to create new manufacturing jobs for non-college-educated Americans to counter the social, economic, and political damage of past deindustrialization, to address the looming climate crisis, and to mitigate the significant public health and national security risks stemming from dependence on adversarial foreign governments for essential goods.

Economic Liberties believes that it is vital that the implementation of these policies and deployment of these funds meets their promised goals, and our focus on competition and trade policy provides an important perspective to understand the intersecting needs and difficulties of implementing industrial policies in the 2020s. The United States is currently making unprecedented industrial investments to create, expand, or remake markets, dramatically raising the economic, social, and political stakes of this moment. Policymakers must ensure that such markets are competitive, dynamic, innovative, decentralized, and resilient.

Industrial policies are not merely less effective without sufficient competition. *They do not work* without it. For the very goals of industrial policy—the reallocation of financial resources, physical capital, workers, and infrastructure to new purposes—to be achieved, competition is essential. To successfully design and implement industrial policies in response to these national challenges, policymakers need to recognize and account for domestic and global market structure and competition dynamics in a range of industries, most of which are currently poorly understood.

Historically, industrial policies have been implemented to address the problem of *too much* competition, wherein new firms are unable to survive against more established or lower-priced foreign competitors. However, these are not the circumstances we face today, as American markets today are heavily monopolized, and international commercial rules implemented through trade and investment agreements promoted the further consolidation

of most industries in the last four decades. Whether in digital markets, manufacturing, agriculture, or healthcare, American firms have both disinvested from critical aspects of the real economy, including direct fabrication of silicon chips, solar panel manufacturing, and resilient supply chain logistics. These firms have also offshored production while holding onto their market dominance domestically. The flip side of this domestic trend is a global concentration in the production of essential goods in a handful of manufacturing spots around the world, connected by long, brittle supply chains vulnerable to natural, public health, and political disruptions.

Given this situation, we believe the core challenge of implementing industrial policy today is to strike the right balance between supporting a domestic industry and ensuring sufficient competitive pressure to innovate, expand, improve quality, and reduce costs. Industrial subsidies without competition will result in monopolized industries rent-seeking the government for more subsidies. We might see subsidies for green technologies be captured by business interests, and the costs of decarbonization continue to explode. Conversely, poorly conceived competitive pressures will simply see industries subsidized in the current programs, like solar or chip manufacturing, move offshore again once industrial policies expire or key guardrails are removed.

Some of the incentive structures for these industrial policies—such as subsidizing a portion of the buyer’s cost for electric cars, solar panels, or heat pumps—can create tensions between competing outcomes such as speedy deployment of climate-friendly technologies, creating domestic manufacturing jobs to address economic inequality and build support for a green transition, and rebuilding a resilient industrial base. The significant manufacturing subsidies for domestic production of such goods underscores that the goal of the IRA is not to rapidly adopt EVs and solar panels in the United States by subsidizing imports made with forced labor and high-carbon production processes.

Finally, to ensure the sustainability and durability of the Biden administration’s industrial efforts, a rethink of the supranational economic framework is required. For decades, the neoliberal consensus was entrenched in trade agreements and institutions, which became outright hostile to industrial policy strategies. Fixing old and creating new regional, plurilateral, or sectoral arrangements that re-legitimize industrial policy and create a floor of decency for the international system would contribute to the long-term viability of the Biden administration’s industrial strategy.

Economic Liberties’ working series on industrial policies aims to help guide and inform policymakers about competition concerns in implementation. Each paper will provide an in-depth analysis into a target industry or market segment of the Biden administration’s industrial policies, including a background of the industry, existing market dynamics, key players, and the structures of these policies, as well as a set of recommendations for

implementation at the federal and state level. By leveraging our knowledge of competition and antitrust policies and the overlapping expertise of Rethink Trade, Economic Liberties aims to provide actionable proposals to ensure competitive, innovative, and open markets.

In the course of this working series, we ask a series of related, overarching questions:

- How can competition policies be used to mitigate the risks of concentration and rent-seeking that often accompany industrial policies?
- How can policymakers ensure that the implementation of these policies leads to durable and sustainable change, both by improving the long-term trajectory of the relevant markets and by institutionalizing smarter policy systems?
- How will the implementation and design of these industrial policies require or shape change in the international trade system?
- How has the American financial system constrained the available resources for productive investment in the Main Street economy, and how can a combination of industrial and competition policies be crafted to address this?

This wave of industrial policies presents an incredible opportunity for the country to rebuild an equitable, prosperous, and sustainable future, and we want to ensure successful implementation in the long run.

* * *

The American Economic Liberties Project is a non-profit and non-partisan organization fighting against concentrated corporate power to secure economic liberty for all. We do not accept funding from corporations. Contributions from foundations and individuals pay for the work we do.

economicliberties.us

[@econliberties](https://twitter.com/econliberties)

info@economicliberties.us